

Millennium Challenge Corporation Climate Change Strategy

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The Millennium Challenge Corporation (MCC) is an innovative and independent U.S. government development agency that partners with countries to reduce poverty through economic growth. MCC recognizes that climate change, poverty, and economic growth are inextricably linked. Climate change poses the greatest risk to developing countries, whose people, economies, and institutions are less able to adapt or afford its consequences. It directly affects MCC's mission to reduce poverty through sustainable economic growth. Without ambitious and targeted interventions, climate change will reverse significant development gains made in these countries and exacerbate global poverty and inequality. The impacts of COVID-19 make the challenge even more urgent. Building climate-resilient economies that promote sustainable and inclusive growth is critical and fundamental to building back better and helping countries enhance their resilience to future crises, adapt to new climate realities, reduce emissions, and stimulate growth.

MCC has invested more than \$1.7 billion in climate-related activities from FY2015 to FY2020, representing about 40% of total investments. MCC currently screens all projects for climate risks and opportunities and considers climate change adaptation, resilience, and mitigation approaches in our investments.

To elevate our climate ambition, MCC will expand and deepen attention to climate change across our investment portfolio and business operations. To achieve this, MCC will continue to work with our country partners to:

- promote climate-smart development and sustainable infrastructure across all key sectors, including energy, roads, agriculture and water;
- support nationally determined contributions (NDCs) in our partner countries;
- urge important policy and institutional reforms that support a just transition toward low carbon development;
- strengthen the integration of climate considerations into our policies, guidelines, analytical tools, and decision-making;
- focus on the needs of women and those most vulnerable to climate change, and of those living in climate vulnerable areas in designing and implementing our investments;
- collaborate with new partners and expand the use of blended finance tools to mobilize private capital into climate activities; and
- align our internal operations with our climate aspirations and seek innovative ways to reduce our own carbon footprint.

This document sets forth MCC's strategy for more fully integrating climate considerations into MCC's core business. This strategy will guide MCC's work across all programs (thresholds, compacts, and regional compacts), whether under development, in implementation, or post-implementation. MCC will periodically review its progress on implementing this strategy and, as appropriate, will update this strategy to document adjustments and new focus areas.

Applicable Policies and Guidance

Consistent with [Executive Order 14008: Tackling the Climate Crisis at Home and Abroad](#), MCC frames its expanded climate efforts within the three overarching objectives of the Paris Agreement: a safe global temperature, increased climate resilience, and financial flows aligned with a pathway toward low-carbon development and climate-resilience.

In addition, MCC's approach to climate is guided by several policies, principles, and guidance:

- MCC's *Environmental Guidelines* (first adopted in 2004), which also formalize MCC's adoption of the [International Finance Corporation's Environmental and Social Performance Standards](#) (2012). All MCC-funded projects must be carried out in accordance with MCC's own policy and the IFC Performance Standards, which include specific requirements to assess and manage climate risks.
- [Executive Order 13990: Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis](#) (2021), which directs agencies to account for the benefits of reducing climate pollution.
- [Executive Order 13677: Climate-Resilient International Development](#) (2014), which requires agencies with direct international investments to screen for climate risks and take appropriate actions when risks are identified.
- [Executive Order 13834: Efficient Federal Operations](#) (2018), which instructs agencies to meet statutory requirements related to energy and environmental performance in a manner that increases efficiency, optimizes performance, eliminates unnecessary use of resources, and protects the environment.
- MCC's internal operational and technical guidance, including *Climate Risk Management in the MCC Compact Development Process*; *Decision Support Manual for Irrigation Projects*; *Integration of Resilience into MCC Compact Programs*; *Building Resilience into MCC Compact and Threshold-Eligible Countries*; *Road Development and Implementation Guidelines*; *Power Sector Guidance*; and *Water, Sanitation, and Irrigation Sector Practice Guidance*.
- MCC's core principle of [country-led development](#), which means that MCC works with partner countries to address their economic development priorities, including managing climate risks and opportunities, as well as policy reforms that support the achievement of Paris Agreement objectives.

Strategy and Near-Term Objectives

MCC's strategy to integrate climate change considerations more fully into its core business comprises six objectives, each supported by a set of specific activities as outlined below.

Objective 1: Strengthen integration of climate and environmental considerations in analytical tools

- Update MCC's suite of analytical tools for economic analysis to better reflect climate and environmental considerations, including updating MCC's [constraints analysis](#) and [root-cause analysis](#), which inform MCC's sectoral focus, and updating cost-benefit analysis methodologies to better capture uncertainties as well as the benefits of greenhouse gas reductions, increased resilience, and improved natural resource management (including natural capital).
- From the beginning of the analytical phase, assess relevant climate and environmental factors to provide additional information, data, and context to inform the constraints analysis, root cause analysis, and early program development.

- Strengthen the integration of climate and environmental considerations in other sectoral and technical analytical processes important to program development, design, and implementation.

Objective 2: Fully integrate climate and related environmental considerations into all stages of program development and implementation

- Promote low carbon economic development to support countries' transition away from fossil fuels, maintain a coal-free policy across our investment portfolio, and commit more than 50 percent of our program funding to climate-related investments over the next five years.
- Evaluate options for achieving “net zero” emissions across MCC's portfolio by 2050.
- Review MCC's investment criteria and update them as appropriate to include climate considerations more explicitly.
- Develop climate-resilient and sustainable infrastructure that promotes (where possible) lower carbon growth.
- Strengthen MCC's accounting of greenhouse gas (GHG) emissions in MCC's portfolio and take them into account in decision-making.
- Prioritize climate impacts on vulnerable and marginalized populations, recognizing that the world's poorest are more likely to live in locations that are highly exposed to climate risks and therefore often are the most affected.
- Use the best available science, technology, and decision-making tools for assessing climate change risks and opportunities. This will build on MCC's existing work with geospatial information, the latest advances in data and climate modeling, satellite imagery, remote sensing, participatory mapping, and innovative technologies (e.g., for clean energy, water efficiency, and agriculture).
- Develop and maintain a portfolio-wide database of climate-related investments and activities in country programs.

Objective 3: Support policy and institutional reforms to broaden the impact of MCC investments

- Work with partner countries to support policy and institutional reforms that promote climate-smart and low-carbon development. Consistent with MCC's model:
 - Systematically identify opportunities to support (and potentially strengthen) partner country policies and NDCs as part of program development. When investments are made in sectors with associated NDCs, MCC will consider opportunities for reflecting NDC objectives into program design, including potential support for related policy reform, institutional strengthening, and capacity building to help partner countries combat climate change and make a just transition to low-carbon development.
 - Support partner country sectoral, master, and investment planning relevant to MCC's programs.
 - Support partner country efforts to improve natural resource management to reduce adverse climate impacts and enhance resilience.

Objective 4: Leverage blended finance to catalyze private capital for climate

- Integrate climate considerations into MCC's blended finance toolkit (which includes grants facilities, public-private partnerships, guarantees and hedging, and impact investor financing) to reduce risk and costs for private investors incorporating climate adaptation, resilience, and mitigation in their projects.
- Crowd-in essential private sector investments in climate adaptation, resilience, and mitigation

through collaboration with other US Government agencies (such as the United States International Development Finance Corporation and the United States Agency for International Development) and other international partners.

- Explore opportunities to deploy MCC's new blended finance tools, including the American Catalyst Facility for Development, Millennium Impact Infrastructure Accelerator, and the Innovation and Technology Facility, for climate-related interventions.
- Explore ways for MCC partner countries to tap into carbon credit markets and thereby create longer term benefits.

Objective 5: Expand and deepen partnerships to further climate objectives

- Partner with other U.S. Government entities, funders and donors, finance institutions, industry, civil society, and research institutions in the U.S., in partner countries, and internationally to accelerate and share learning and amplify the positive impacts of MCC and partner country efforts to combat climate change.

Objective 6: Align MCC's internal operations with our climate aspirations>

- Assess and improve the efficiency and resilience of MCC's facilities and operations. *Executive Order 14008: Tackling the Climate Crisis at Home and Abroad* directs each federal agency to "develop a plan to increase the resilience of its facilities and operations to the impacts of climate change." To that end, MCC will carry out an internal analysis of the agency's carbon footprint and climate resilience to identify areas for improvement. This would in part be an update to MCC's Annual Strategic Sustainability Performance Plan (developed under *Executive Order 13693: Planning for Federal Sustainability in the Next Decade*).
- Identify and implement additional opportunities for improved business practices to increase sustainability. This may include the integration of climate considerations into procurement and travel policies as well as workforce planning efforts related to telework arrangements, workspace needs, printing protocols, and long-term use of and needs of physical facilities.

Implementing the Strategy

Building on MCC's model, successful implementation of this strategy will require engagement and action across the entire agency. Based on the goals and objectives outlined in this strategy, MCC departments, divisions, and practice groups will orient their work in support of the strategy and, as appropriate, integrate specific actions into regular MCC agency planning processes.

Effective communications about MCC's robust approach to climate change, both with internal and external stakeholders, will be critical to successful implementation of the strategy. MCC has developed and will deploy a multi-faceted communications and outreach effort covering all strategy objectives, to include:

- Publication and dissemination of [MCC's Commitment on Climate](#) issued in connection with the April 22, 2021, Climate Leaders' Summit. This public statement details MCC's commitment to climate-smart development and sustainable infrastructure, highlighting how MCC will expand and deepen its emphasis on climate across its portfolio of investments. This expands and replaces

MCC's 2011 Agency Climate Change Adaptation Policy Statement.

- Development of updated agency communications materials outlining MCC's comprehensive commitment to addressing climate change. This will include updating agency messaging on climate, updating MCC's website and social media accounts, and developing new materials to highlight MCC's approach and impact.
- Development and implementation of a climate communications plan, engaging with partners and stakeholders to share information, and promoting thought leadership on climate resilient, low-carbon development.